ANALYSIS OF SYARIAH QUANTITATIVE SCREENING NORMS AMONG MALAYSIA SYARIAH-COMPLIANT STOCKS

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2. Letter of Offer (Research Grant)

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PEMENANG Anugerah Kualiti Perdana Menteri 2008

Surat Kami : 100-RMI/ARI 16/6/2 (29/2010)
Tarikh : 20 Ogos 2010

Prof. Madya Dr. Pok Wee Ching
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Y. Bhg. Prof./Prof. Madya/Dr./Tuan/Puan

KELULUSAN PROJEK DI BAWAH GERAN PENYELIDIKAN ARI HICoE

Tajuk Projek	:	**A Comparative Study on the Screening Process of Syariah Compliance Practices Using Malaysian Securities**
Jumlah Peruntukan	:	RM 44,000.00
Tempoh	:	1 Julai 2010 – 31 Januari 2012 (18 bulan)
Ketua Projek	:	Prof. Madya Dr. Pok Wee Ching

Dengan hormatnya perkara di atas adalah dirujuk.

2. Sukacita dimaklumkan pihak ARI telah meluluskan cadangan penyelidikan Prof/Prof. Madya/Dr./Tuan/Puan dan membiayai projek penyelidikan di bawah dana pengurusan ARI/RMI.

3. Bagi pihak Universiti kami mengucapkan tahniah kepada Prof/Prof. Madya/Dr./Tuan/Puan kerana kejayaan ini dan seterusnya diharapkan berjaya menyiapkan projek ini dengan cemerlang.

4. Sehubungan dengan itu, pihak Prof/Prof. Madya/Dr./Tuan/Puan adalah diminta untuk melengkapkan kertas cadangan penyelidikan dalam format borang Dana Kecemerlangan yang boleh didapati di dalam laman web RMI. Sila pilih **Kategori A** (Institutional Research). Ini adalah perlu bagi tujuan mengemaskini sebelum penyelidik dibenarkan untuk menggunakan peruntukan penyelidikan. Sila lihat lampiran bagi tatacara tambahan untuk pengurusan projek.

Sekian, harap maklum.

"SELAMAT MENJALANKAN PENYELIDIKAN DENGAN JAYANYA"

Yang benar

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Ketua Penyelidikan (Sains & Teknologi)

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5.2 Enhanced Executive Summary

The purpose of this study is to investigate whether Malaysian Syariah-compliant quantitative screening adopts criteria, which can be considered more liberal than those used by the DJIM, S&P and FTSE Syariah index providers, and also to assess the financial health of the sample companies. To do these, a sample of 477 Syariah-compliant firms were tested using the financial ratios, namely, liquidity ratio, interest ratio, debt ratio and non-permissible income ratio used by these world-leading index providers. The results showed that fewer companies (12.16%) qualify under the DJIM criteria and even more companies (63.10%) qualify under the FTSE criteria. The reasons for this difference are (1) the use of different formulae to calculate the ratio (2) the use of different thresholds and (3) the different emphases applied by the world index providers. The results of the financial health screen show that the majority of the Syariah-compliant companies are financially healthy.

5.3 Introduction

Islamic finance has been practiced since the establishment of the first Islamic communities. However, modern Islamic financial systems began only in the 1960s when the first Islamic bank was formally set up in Egypt in 1963. In the 1980s and early 1990s during the global financial deregulation, Islamic finance began to establish footholds in larger international banks. Countries such as the USA and Europe began to adopt Islamic finance and banking by amending some parts their banking and tax laws and their legal and regulatory frameworks in accordance to Islamic practices in order to attract Islamic investments. Countries in the Far East such as Singapore, Japan, South Korea and Australia have also joined the Islamic finance bandwagon to support their economic growth (The Edge, October 2010). El Qorchi (2005) cited three main reasons for the significant shift: (1) a strong demand for Syariah-compliant financial products from a large number of Muslims worldwide, (2) a strong demand from oil rich nations especially the Middle East countries which prefer to invest in Syariah-compliant products, and (3) the competitiveness and the ethical focus of the Syariah-compliant products being not only attracting Muslim investors but also to non-Muslim investors. The Islamic finance industry has experienced double digit growth annually (estimated at 15%-20%) with the assets from global Islamic services reaching USD1 trillion in 2010 (Ilias, 2010).

As the number of faithful Muslim investors grows and they become more familiar with the concept of Islamic finance, Islamic investments in stocks and shares are likely to come under greater scrutiny to ensure that their investments fully comply with the Syariah. The index providers need to be vigilant with issues that are related to Syariah to ensure that the criteria for stock inclusion or exclusion in Syariah indices are constantly reviewed for compliance. The world's leading equity index providers such as Dow Jones, FTSE, Standard and Poor's (S&P), MSCI Barra and Russell Investments[1] concur that Syariah-compliant products need to be monitored and reviewed regularly. At the initial screening (also known as qualitative screening), the universe of the stocks from the conventional global equity indices are screened for prohibitive elements.[2] The qualitative processes and criteria

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[1] Dow Jones debuted its Dow Jones Islamic Market Index family, then FTSE Group developed the FTSE Shariah Global Equity Index Series, Standard & Poor's introduced the S&P Shariah indices, MSCI Barra MSCI Islamic Index Series, and Russell Investments launched the Russell Jadwa Shariah indices.

[2] For example interest (riba), excessive uncertainty (gharar), gambling (maysir) and forbidden products (haram), i.e., companies that are directly involved with alcohol, broadcasting and entertaining, conventional financial services, gambling, hotels, insurance, media (except newspapers), pork-related products, restaurants and bars, tobacco, trading of gold and silver, and weapon and defence.